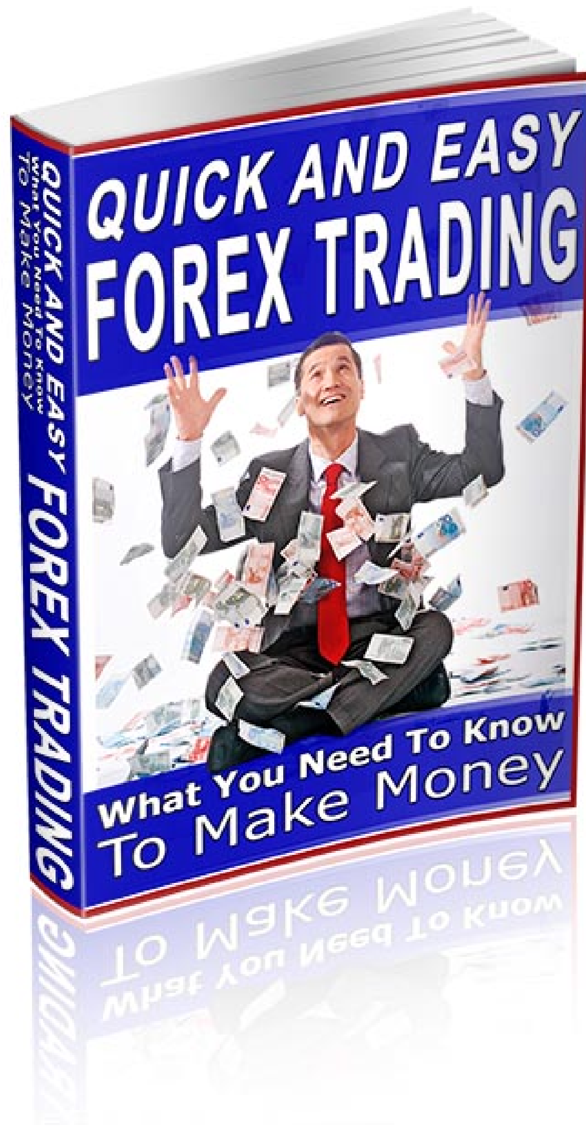
Quick And Easy Forex Trading



Presented By:

Forex Trading Online

http://forexingonline.com/

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1. Before We Start …

This book is an introduction to forex trading for anyone who wants to get started, or is even just thinking about it. Forex trading can be very lucrative but it is also very risky and there are certain things you need to know before you start.

There are many forex websites online but most of them present their information in a haphazard way. They do not tell you everything you need to know in any logical sequence. So you can waste a lot of time surfing and only end up with a couple of pieces of the puzzle.

We want to make sure that you get closer to the complete picture here, so you will find a lot of information in this book. You may already be familiar with some of it. But we cannot know what you know and what you don't, so we have included everything that we think someone starting out would find useful.

The best way to handle this is to read through it all, even if you think you already know some sections. Then go back over the parts that were new to you. At that stage you can try some of the techniques for yourself.

What Is Forex Trading?

Forex or FX is short for foreign exchange. So forex trading is currency trading. You simply exchange one nation's currency for another in the hope of making money when the exchange rates change. The rates are constantly changing due to market news, national events, changes in values on a country's stock exchange, etc.

At the most basic level, imagine you exchanged some US dollars for British pounds. You might sell $1,000 to buy £650. Within a short time the rate changes in your favor so you change them back again. Now with the new rate you get $1,010 for your £650. You just made $10 or 1% of your investment.

Currency traders do this kind of thing all of the time with the aim of increasing their funds through many small trades. They trade on margins so that they can control larger amounts with only a small investment. In the above example, you might only have to commit $10 in your brokerage account to make the purchase even though the amount is $1,000. The broker covers the rest on the assumption that the market is unlikely to go against you by more than 1% in a short time – and if it does, a stop loss will usually be in place to ensure that you cannot lose more than your $10.

You need a system that works , clear strategies and the ability to stick to your decisions. You must not be constantly switching systems or acting from out of fear or greed. Consistent application of a profitable system is the key to success.

As with any investment strategy that has the potential of large gains, there is also risk. Currency prices can change very fast and you can make a lot of money in a short time but you can lose it too, unless you are very careful. You should accept before you start that if you trade for real, you may lose the money that you are trading with. At the same time, take your trading seriously, even if you are only using a demo account. Do

not treat it as a game. Keep clear records of what you did. However your trades turn out, look carefully at the results to see what you did right or wrong and learn from that.

Why Forex Trading?

Forex trading has been around for over 30 years but until the rise of the internet it was almost entirely in the hands of banks and other institutions with large investment funds. These days ordinary people can get involved although the financial institutions are still the major players. When I tell you that around US $4 trillion changes hands every day on the currency trading markets you will understand that only a small part of this belongs to ordinary people like you and me.

To get started you will need a high speed internet connection, a good system or the time to learn and develop your own system, and some money to invest.

You do not necessarily need a lot of money. Brokers now offer mini forex trading accounts and even micro forex trading accounts which you can open with just a couple hundred dollars. However, it is better to have more, even if you do not put it all into the account in the beginning. Forex trading is risky and if you only have a couple hundred dollars, you probably should be doing something safer with it.

But assuming that you have the funds and you have decided that you want to make money with some kind of financial trading, let's take a look at why this could be a better option for you than stock or commodity trading.

1. No commissions and no fees.

If you have experience of the stock market you will know how your profits can be eaten away by brokers, exchange and even government fees. The global nature of the forex market means that you do not have to pay any of these. Brokers make their money

through the spread, which is the difference between the bid and ask prices of a currency. All you have to do is be sure that the price will go your way far enough to cover this.

2. No fixed lot size.

In commodity futures markets, the size of a lot or contract is set by the exchange and you cannot buy or sell less than one lot. But in spot forex trading you can theoretically set your own lot size. Most brokers have their own standard sizes but you can shop around and look for a broker who offers small or fractional lots.

3. A 24 hour market, five days a week.

For the whole of the global business week, the forex market never sleeps. This is great if you need to trade outside of normal business hours. You can work at your day job from 9 to 5 and trade currencies in the evenings. Or you can start whenever you get up in the morning, even if it is 5 a.m.

4. High leverage.

Forex brokers may offer up to 200 times your margin deposit in leverage, although 100 times is more common. This means that you have the chance to make a lot of money from only a small deposited fund. You would only need $100 or even $50 to control $10,000 dollars in a trade. As long as you have good risk management and remember that high leverage also means high risk, this can open up the possibility of a high return on your investment.

5. A massive market with high liquidity.

The forex market is so huge that even the banks, big as they are, each have limited influence. Insider trading is not an issue. And high liquidity means plenty of money in

the markets so that you are never stuck unable to close a trade. You can even set software to close your position for you at a certain level of loss or profit.

6. Free tools and information from your broker.

Brokers are in strong competition with each other to attract retail traders so they are offering more and more features. We will look at how to choose your broker in a later section. They will offer you a demo account where you can practice your trading, sharpen your skills and try out or even develop your own system before you start to use real money. They will also provide the charts that you need to identify trends, and give you access to breaking forex news, all for free.

7. Low start up costs.

A good modern computer with a high speed internet connection is all that is needed to begin trading currencies. If you want to use a robot for your trading you can find one for $100 to $200. Plenty of information on trading currencies including advice on systems is available for free online.

8. You are in control.

As a forex trader you will be in full control of your investment. You can access your account through your broker's software platform and make the trades in real time yourself.

You also have control over the currencies that you buy and sell. You are not limited to dealing in your own country's currency. This means that if your national economy is in a very unpredictable state you can switch to trading two other currencies that are more stable.

So there are 8 good reasons to choose forex over other forms of financial trading. Now let's move on to the basic information that you need to be familiar with so that you can start trading.

2. Trading Basics

Making Sense Of Quotes And Pairs

When you see a forex price quote, it will always involve two currencies. That is because all currency transactions are exchanges: you are buying one currency and selling another at the same time.

In theory you could trade any two currencies of the world, but most trading involves the currencies of the larger financial powers. This does not necessarily mean the biggest or most politically powerful countries. Switzerland is only a small country but it is a major player in the financial markets because of the global importance of the Swiss banks.

There are 6 major forex pairs which together account for 90% of the funds traded on the forex markets. These are:

- EUR/USD: the euro and US dollar.
- GBP/USD: the British pound and US dollar.
- USD/JPY: the US dollar and Japanese yen.
- USD/CHF: the US dollar and Swiss franc.
- AUD/USD: the Australian dollar and US dollar.
- USD/CAD: the US dollar and Canadian dollar.

The US dollar is involved in 85% of forex trades and therefore it is in all of the major pairs. Pairs that do not involve USD, such as EUR/GBP, are called cross rates.

The Best Pair For Beginners

The best currency pair for most beginners to trade is EUR/USD. There are two reasons for choosing this pair:

1. It is the most commonly traded pair so liquidity is high and the spread (your cost) is generally low.

2. There is plenty of information available about both currencies. Brokers will supply full charts and it is easy to access financial news and alerts.

The second most traded pair is GBP/USD.

You may have access to a particular system that works with another pair. That is fine, but try to stay with only one pair when you are starting out. Do not follow a system that involves trading a lot of different currencies. It is too difficult to keep on top of all of the prices, trends and news.

Understanding A Forex Quote

The first thing to know about currency pairs is that they are always written in a certain order. The first currency is called the **base currency** and the second is called the **quote currency.**

Here is an example of a foreign exchange rate for the euro against the US dollar:

EUR/USD 1.3642 1.3644

The base currency is the euro and the quote currency is the dollar.

There are two prices given. The first is the **bid price**, which tells you how many units of the quote currency (USD) you will get when you **sell** one unit of the base currency (EUR). In this example you get 1.3642 dollars when you sell 1 euro.

The second price is the **ask price,** which tells you how many units of the quote currency (USD) you have to pay to **buy** one unit of the base currency (EUR). In this example you have to give 1.3644 US dollars to get 1 euro.

If you buy the EUR/USD pair you are buying euros and giving dollars. Buying is called 'going long' or 'taking a long position'.

If you sell EUR/USD you are selling euros and getting dollars. Selling is called 'going short' or 'taking a short position'.

This is the way that traders refer to their transactions. They never talk about 'exchanging euros for dollars'. Instead they will talk about 'selling EUR/USD', or 'going short on EUR/USD'.

You buy the pair when you believe the base currency (EUR) will increase in value relative to the quote currency (USD). You would sell the pair if you think the base currency will decrease in value relative to the quote currency.

Often you will see rates quoted online with just one price given. The second price will vary from broker to broker depending on their spread. Let's look at that next.

Spread And Pips

Look again at this example:

EUR/USD 1.3642 1.3644

If you were paying attention to the explanation of the bid and ask prices above, you probably realized that if you first buy and then sell again with no change in these prices, you lose $0.0002 (0.02 of a cent) on each dollar that you trade. This is called the **spread** and it is how the brokers make their money.

The spread is measured in **pips**. Later, you will also see how to measure your profits in pips. Why do we need to think in pips? The reason is simple. In the foreign exchange market there is not a common currency in which to express values. The US dollar may be the most frequently traded currency but it is not involved in all trades. If you are trading cross rates, i.e. two other currencies such as EUR/GBP or any other combination that does not involve USD, it would not make any sense at all to express your gains and losses in terms of US dollars. Instead, we need something that is a small percentage of the value of whatever currencies we are dealing with. We call it a pip: percentage in point (or some say, price interest point).

One pip is the smallest part of a unit that is recorded in the price. Commonly a price is quoted to 4 decimal places so 1 pip is 0.0001 units of the quote currency. Some brokers are now quoting 5 places, and the Japanese yen is usually quoted to just 2 places, but for our EUR/USD example we will stay with 1 pip = 0.0001.

Here the bid price is 1.3642 and the ask price is 1.3644. So the spread, the difference between them, is 0.0002 or 2 pips. Since the quote currency is US dollars, the pip value in this example is US $0.0001 and the spread is US $0.0002.

$0.0002 may not seem much but in forex trading you will use leverage to deal in lots which could be $10,000 or even $100,000 each. The spread would be $2 per lot in the first case or $20 in the second. That cuts into your profits. So you do need to take the spread into account when trading.

Always remember that the price must change in your favor by more than the amount of the spread before you will make a profit.

Best Trading Times

The forex market is open 24 hours a day during the business week, but this does not necessarily mean that all of those 24 hours are perfect for trading. In general, the best times to trade are when the markets are busiest.

If your system involves letting your trades run over several days this may not make so much difference to you. But if you are involved in day trading where you might open and close a trade within a few minutes, you will find that more opportunities come up during the most active hours.

The two biggest trading floors for forex are in London and New York. Although Great Britain does not use the euro, most euro countries are within one hour time difference from London, as is Switzerland. US time zones also include Canadian. So the London session and the New York session between them cover the time zones of most of the major currencies that are traded.

The London session starts at 8.00 UTC (3.00 a.m. EST) and finishes at 16.00 UTC (11.00 EST). The New York session starts at 13.00 UTC (8.00 EST) and finishes at 21.00 UTC (16.00 EST), although trading in the US continues in Chicago until 22.00 UTC (17.00 EST).

The whole of these two sessions can be good for most traders. For day trading, the peak trading time is during the three hours that the markets are open in both London and New York. This period runs from 13.00 to 16.00 UTC (8.00 to 11.00 EST).

If you were involved in a cross rate, i.e. a currency pair that does not involve the US dollar, you might have another window of time when the financial centers in your two countries are open for business. However, we are concentrating on EUR/USD so it is best if you can be online to trade for part of the UK/US combined business day between 8.00 UTC (3.00 a.m. EST) and 21.00 UTC (16.00 EST).

3. How To Trade Forex

Buy Or Sell?

All decisions to open a trade in the foreign exchange markets are based on predictions of changes in price. You would never trade without having some reason to believe that the price of a currency pair will either rise or fall.

So how do you know which way the price will move? Of course, this is the million dollar question of forex trading!

There are two ways that traders arrive at a belief that the price is about to change in one direction or another. These methods are called 'fundamental analysis' and 'technical analysis'. Some traders rely more on one than the other, but most use a combination of the two.

Fundamental Analysis (Simpler Than It Sounds)

If you base a trading decision on fundamental analysis you are considering economic and financial factors. For example, if you thought that the American economy was in a precarious state and likely to suffer a crash, you might decide to buy the EUR/USD pair. But if you believed that the US economy was strong and the euro was likely to weaken, you would sell the pair.

If you rely mainly on fundamental analysis you have to keep a close eye on the financial news for both of your currencies. This means looking beyond your own national news. Now that we have the internet it is easy to do this online. Most brokers also send out alerts of breaking forex news which can help to keep you up to date.

Technical Analysis

Technical analysis uses information from charts and other mathematical indicators to determine when trends are forming.

A trend is simply a tendency for the price to keep moving in one direction or the other. Of course, often there may be a small fall followed quickly by a rise, or vice versa. That is not a trend but just a minor fluctuation, and these are very common. So you cannot base a trading order on just one price movement. You need to know that the price will keep on rising or falling long enough for you to cover the spread and move into profit.

There are many different kinds of charts that you can expect to see in your brokerage account. You can learn to read these to indicate when trends are forming.

In a later section we will look more closely at some of the different kinds of charts and indicators that you can expect to see in your trading account, and how to use them to identify trends that you may be able to make money from.

Using Lots And Margins To Control More Money

When you place an order, either to buy or sell, your order will be framed in terms of lots. One lot is usually the minimum size of a trade (although some brokers do offer fractional lots).

So how much is a lot? Until quite recently, the standard lot size was 100,000 units of currency. That is, 100,000 dollars, euros, pounds etc. However, most traders now begin with a mini forex account where the usual lot size is just 10,000 currency units.

That's still a LOT of money!

So what happens if you do not have thousands of dollars, euros or whatever to trade with? It's OK! The forex market uses margin trading so that you can control 50, 100 or even 200 times the amount that you actually have to commit in your account.

This means you can place an order for $10,000 worth of currency with just $100 or even $50. You are trading borrowed capital, and your broker loans you the rest. So you can deal in large transactions quickly and cheaply with only a small investment of your own.

An Example Trade

Let's say that from your forex trading charts (technical analysis) you believe you see a rising trend forming in the EUR/USD pair. The economic news (fundamental analysis) supports the idea that the euro may be strengthening and/or the dollar weakening. So you decide to buy EUR/USD.

In your mini forex trading account you open one lot (10,000) at our example ask price of 1.3644. You are buying 10,000 euros for US$13,644. But remember that you will use leverage, so you do not need to have anywhere near that much money in your account.

The margin requirement on your account is 1%, so you are only giving US$136.44 of your own money to make this trade. (But be aware that most brokers require a higher margin on trades that stay open over the weekend, so if you do not plan to close during the same week, you may need twice this amount in your account to cover this trade.) Then you wait. As you expected, the price quickly rises. After a short time it has risen by 50 pips to 1.3694 (ask price). Your trade has been successful. You decide to sell.

Remember that the bid price, which you will get when you sell, is 2 pips lower than the ask price in our example. So those 2 pips go to the broker and your profit is 48 pips.

So How Much Did You Make?

48 pips … so how much is that in dollars?

Since USD is the quote currency in this pair, it is simple to work out your profit in terms of dollars. Where the price is expressed to four decimal places, in the quote currency 1 pip is 0.0001 of a lot. So here 1 pip is $1. You just made $48.

And how much is it in euros?

If your own currency is euros, or if you are trading a different currency pair where USD is the base currency rather than the quote currency, you may prefer to keep records of your profits in terms of the base currency.

In the base currency, where the price is expressed to four decimal places,
1 pip = 0.0001 x lot size / closing price.

So in our example, 1 pip = 0.0001 x 10,000 / 1.3694 = 0.7302 euros.

Your profit of 48 pips is 48 x 0.7302 = 35.05 euros.

Remember, this is a fictional example. There are no guarantees that your trades will make this amount or be successful at all. We have said this before but we will say it again. You could lose money. In fact, it is certain that sometimes you will. Let's look next at what happens then.

What If You Lose?

If you know anything about stock trading, you will know that trading with borrowed capital on margins is extremely risky. With stocks, if the price drops beyond a certain point you can be committed to paying out more than was in your account. That is what is known as a margin call.

The advantage of the forex market in this respect is that its very high liquidity means that you can generally set a stop loss to prevent this happening. In very simple terms, this is because stocks have to find a buyer before they have any monetary value at all, while currencies are already money. What's more, there is a much bigger turnover in the forex markets than on any national stock exchange. Trillions of dollars worth of currencies change hands every day on the forex market. So it is much easier to find a buyer for a falling currency than it is for a falling stock.

Most forex trading accounts are managed on a principle that avoids almost all margin calls by placing an automatic stop on your trade if you lose the full amount of your account balance. This means that even if you do not place a stop loss yourself, your broker will automatically close the trade if you run out of funds, so that you will not owe more money than you had in the account.

This is comforting but you should not rely on it. You should always place your own stops to close a trade if the price goes against you, a long time before it wipes out your whole account!

Always keep in mind that some trades are bound to lose. Even the most successful trader meets with unexpected twists in the market, and even the most perfect technical predictions cannot cope with an unexpected natural, political or economic disaster. So you must use stops to protect your account against the possibility of large losses when (not if) you lose.

And above all, do not let losses divert you from your system. You must apply a profitable system consistently to make money with forex trading. Never increase your position size to try to 'recover' your losses. They are part of the process. Record them and move on.

Where To Place Stops

Some sources advise that you should not risk more than 2% of your funds on a single trade. This is good advice.

The problem with it is that if you only have a small balance, your stop loss could be so close to your opening position that it will be triggered by normal, meaningless fluctuations in the market. That is bad news.

Let's take an example to illustrate this.

Many people open a mini forex trading account with $250. If you are risking just 2% of your funds on each trade, that would be $5. In our EUR/USD example, that is 5 pips. Remember that the spread in this example is 2 pips. So your stop loss would have to be set just 3 pips below the opening price to ensure that you did not lose more than $5.

That is too close and it could be triggered too soon, so that it would lead to overall losses even when your predictions were generally correct.

Because of this, it may be better to operate with stop losses at 4% to 5% of your fund while you only have such a small balance. That gives you a range of up to 10 pips in which to place your stop loss, depending on the volatility of the market. However, you should be aware that this will mean that your fund is more vulnerable if you have a run of losses.

For this reason, we would advise you not to start trading with real money if you only have $250 available. We would recommend setting aside at least $1,000 and preferably more. You do not have to put it all into the trading account at once, but the rest should be held back in a savings account, separate from any other savings or investments that you have. When you keep your trading records, treat the whole $1,000 as your fund. Then you can operate with reasonable stop losses but still never have to risk more than 2% of your total fund on each trade.

Of course, all of this fund should be money that you can afford to lose and do not need for any other purpose.

Can I Start Right Away?

Well – no. Or rather yes, but you should use a demo account in the beginning.

When you sign up for a trading account, be sure to choose one that gives you a demonstration mode so that you can hone your trading skills before you go live with real money. Then use it.

http://questionon.com/blog/forex-currency-trading-system

Some sources recommend trading with a demo account for 6 months before you start for real. But there is a big difference between trading every day for 6 months and trading once a week for 6 months.

In my view the important thing that you need to learn with a demo account is how to stick to a system consistently, including managing losses. This is something no book or mentor can teach you. You can only learn by doing it for yourself.

When you are able to stick to your system no matter what, and it is proving profitable, and (this is very important) you have had some major losses without reacting by altering your position size, your stops or your system, then you may be ready to move to real money trading. But not before.

Remember, all traders lose money on some trades. Nobody has a 100% success rate. Even the most successful traders have times (sometimes long periods) where nothing seems to go right. If you cannot stand to lose, and get depressed or panicky when it happens, then you probably should not be trading.

Added to that, most traders see all of their first account balance wiped out pretty soon, and either quit or start over. They either started with a system they had not adequately tested, or they did not understand how to manage their funds, stops and position size, or they did not apply their plan consistently, or some combination of all three. Maybe these are just lessons that have to be learned by losing cold hard cash – but if you can avoid a wipeout by spending a little more time in demo mode, it's better, isn't it?

So that is why it is important that you can afford to lose the money that you use for trading.

Let's be very clear about this. Forex trading is not a get rich scheme. It is not for people who are on welfare, in debt, or struggling to make the mortgage or rent payments. If

http://forexingonline.com/

that sounds hard, I am sorry, but it is true. The fact is that if you are in any of those situations, you are not going to be relaxed enough about money to make good trading decisions. You will be driven by need, desire and fear, and that is a recipe for disaster. Be grateful that you came across this book before you lost a lot of money, and go find a more reliable way of adding to your income.

If, on the other hand, you have enough money for all your needs plus some, you are a good money manager and have self discipline, and you are thinking that maybe instead of spending a few thousand on another car or another vacation you will put that money into forex trading, that's fine. You should still practice with a demo account until you are confident and profitable, but you are in a much better position to eventually become a successful forex trader.

Good traders can and do make money. Some make enough to live on; some make more than enough. But it is a skill that you need to learn and you will not start making a lot of money in a very short time.

4. How To Make Money

Choosing A Broker

All forex traders need a broker. We have talked in earlier sections about some of the services that brokers will provide when you sign up for a trading account, and we have made it clear that in the beginning you should only be operating a demo account.

Demo accounts are free. Brokers give them away because they know that 90% of the time, when you start trading for real you will want to use the platform that you are already familiar with. This means that you should choose your broker carefully before you even sign up for the demo. You could switch later but it will be easier if you make

the right choice now, and to do that, you need to act as if you were going to open a real money account right away.

So before you sign up with anybody, there are a few things that you need to know.

Types Of Forex Broker

There are several types of forex broker and people new to currency trading may be surprised to find that some companies offering forex trading services are not brokers in the traditional sense at all.

Traditionally a broker would work for you as a client, placing your buy and sell orders for you through their dealing desk and charging commission (for stock exchange transactions) or making their money from the spread (the difference between bid and ask prices) for forex trading. At one time orders would be placed by telephone. Now they are placed online, with you in full control of your account.

But standard forex accounts run on these lines require significant investment. Typically the minimum deposit for a standard account could be anything from $10,000 to $50,000. Of course, now that forex trading can be done from home, there are many new services springing up with lower deposit requirements, offering forex mini accounts where you can start with $1,000 or less. But the business model of these new services is not necessarily the same as traditional brokers, and this can have implications for you.

There are 4 main types.

1. NDD Brokers (No Dealing Desk)

Brokers without a dealing desk communicate with external liquidity providers to provide prices and match your trades. Because there is a range of liquidity providers,

the original spread tends to be small but the brokers may increase it to give themselves a reasonable profit margin.

2. ECN Brokers (Electronic Communications Network)

ECN brokers provide a marketplace used by banks, market makers and regular traders. Trades will be entered in the name of your ECN provider for anonymity. Spread is generally small but the ECN will often charge a matching fee per trade.

3. Market Makers

When you have an account with a market maker, your trades are not being matched by external providers but by the market maker themselves. This means that they take the opposite position and offer their prices to you, although of course these prices relate to the current price in the market. They will then offset their risk by taking an equivalent position to yours in an ECN or other environment.

Since they are not actually placing your order in the market, market makers are not brokers in the true sense of the word although most traders use the term forex broker loosely and include them. Others consider that the difference between market makers and bucket shops is not clear and prefer to avoid them.

4. Bucket Shops

Bucket shops work a little like market makers but they do not offset their risk and may have very little connection to the real spot forex market. When you deal with a bucket shop you could be said to be betting against them. They oppose your trade and they profit by your loss. Like commercial bet takers, if you are consistently successful they tend not to want your business and will probably close your account, returning your funds to you.

A bucket shop is working against you, not for you. They are illegal in some jurisdictions and they are best avoided, certainly for beginners.

Other Considerations

1. Reliability

Of course, you want a broker that you can trust, who will not suddenly disappear from the internet along with all of your money.

The forex market is generally not regulated by a lot of laws because of its global nature. This means that there are a huge number of brokers and some are more trustworthy than others.

Your first step is to check that the broker is a member of at least one voluntary regulatory body. In the USA these include the Commodity Futures Trading Commission (CFTC) and the National Futures Association (NFA). Look for a forex broker with a clean record in any complaints logged against them on the NFA site. Do your own research if you are looking for a broker in another country.

Then you need to think about whether the broker's software platform is reliable. You will need to connect with this whenever you want to trade. If it is often offline, it is likely to cause problems for you. You could miss out on either opening or closing a trade at the best time. Check forex trading forums for feedback from users on this point, although be careful not to be swayed either way by a single individual who may have his or her own reasons for being strongly for or against a particular broker.

2. Services

The forex markets are open 24 hours from Sunday night to Friday afternoon EST. Check that your broker's trading platform is available all of this time (most are) and that they offer 24 hour customer support on trading days too.

Check that they cover at least the seven major currencies USD, AUD, CAD, GBP, EUR, CHF, JPY. Again most will, but it is worth being sure. Even though we have recommended starting with one currency pair, you may want to diversify when you become more experienced.

A broker should offer you charts including bar, line and candlestick charts. They should also offer indicators including parabolic S&R (or SAR), stochastics, MACD, Bollinger bands and RSI. You do not need to know what all of these mean right now, just check that you have them.

You also want instant execution of your orders at the displayed price. Some brokers apply slippage so that if the price changes during the split second between you seeing/clicking on the price and your order being received, you get the new price, not the price you expected. Avoid these brokers and go for one who offers 'what you see is what you get'.

Your screen layout should include real-time price quotes and a summary of your current account balance including current commitments, margin available, and realized and unrealized profit and loss.

Be aware too that there are two types of trading platforms offered by brokers. One type is accessed over the internet and hosted by the broker (web-based). The other type, you download and install on your computer (downloadable).

Web-based platforms are generally considered slower, but they can be accessed from any computer that has internet access, or even a PDA. If you download a platform you

can only use it on that one computer. You don’t have access to your account if your main computer breaks down or you are away from it. It may be more vulnerable to viruses and hackers. Also, you can usually only download to computers that run Windows.

3. Spread

Forex brokers do not charge commission but make their money from the spread. As you know, this is the difference between the buy and sell prices on any currency pair. Spread can be anything from 1 pip or less, up to about 3 pips, depending on the broker and the pair.

The size of the slice taken by the spread can make the difference between profit and loss in your trading account in the long term so look closely at this. If you know which pairs you are likely to trade most often, the spread on those pairs will be more important to you than others. At the same time, do not be drawn in by a special offer because that may have changed by the time you are ready to trade for real.

4. Rollover

Something else which can be a cost (although not necessarily) is rollover interest.

Even though forex is a 24 hour market, brokers have a nominal end to their trading day, usually at 5 pm EST. They will either charge you or pay you interest relating to trades that stay open from one day to the next. So rollover could apply even to a two-minute trade if it was opened at 4.59 pm and closed at 5.01 pm.

Rollover depends on your margin and position. Interest is paid on the currency that is borrowed and earned on the currency that is bought. The interest rates for different currencies can be different, so unless you are trading two currencies that happen to

have the same interest rate, there will be a discrepancy. For example, EUR has a higher interest rate than USD. This means that if you are buying EUR/USD you will earn interest, and if you are selling it you will pay interest.

All you need to do here is check the interest rates that your broker offers and make sure they are not wildly different from other brokers for the currency pairs that you are most likely to trade.

5. Minimum Investment

Even though you will not invest any real money right away, you should look at the minimum investment size for an account. Most new traders are best advised to start small, so look for a broker who will let you open an account with $1,000 or less, even if you have more money available.

6. Margins

Margin requirements can be very different from broker to broker. A lower margin requirement means higher leverage, and higher leverage gives you greater profits or losses on the same fund size. So low margins seem great when you are doing well, but losses will be bigger if things go badly.

7. Lot size

Lot size can vary too. Generally the lot size in a 'standard' account is 100,000, 'mini' is 10,000 and 'micro', where available, is 1,000. Micro accounts tend to carry high proportional costs, so you will probably want to begin with a mini account.

We have given you a lot of information in this section so that if you feel ready, you can go ahead and find yourself a suitable broker right now. That way you will be able to

understand the next section better. But only set up your demo account at this stage. We are not ready to start trading for real yet.

When you do open an actual trading account, be sure to open a **spot account** and not a 'forwards' or 'futures' account. All of the forex trading that we are discussing here, and most of the information you will find anywhere else, relates to spot trading. We will not be dealing with forex futures at all.

Charts And Indicators

As we have seen, making money with forex trading involves identifying a trend or predicted price movement in one direction or the other. If we think the value of the EUR will rise in relation to the US dollar, we buy EUR/USD, or take a long position (go long). If we think it will fall, we sell, or go short.

The most popular way to identify trends as they are forming is by the use of technical analysis, or charts and indicators.

Charts

1. Line charts

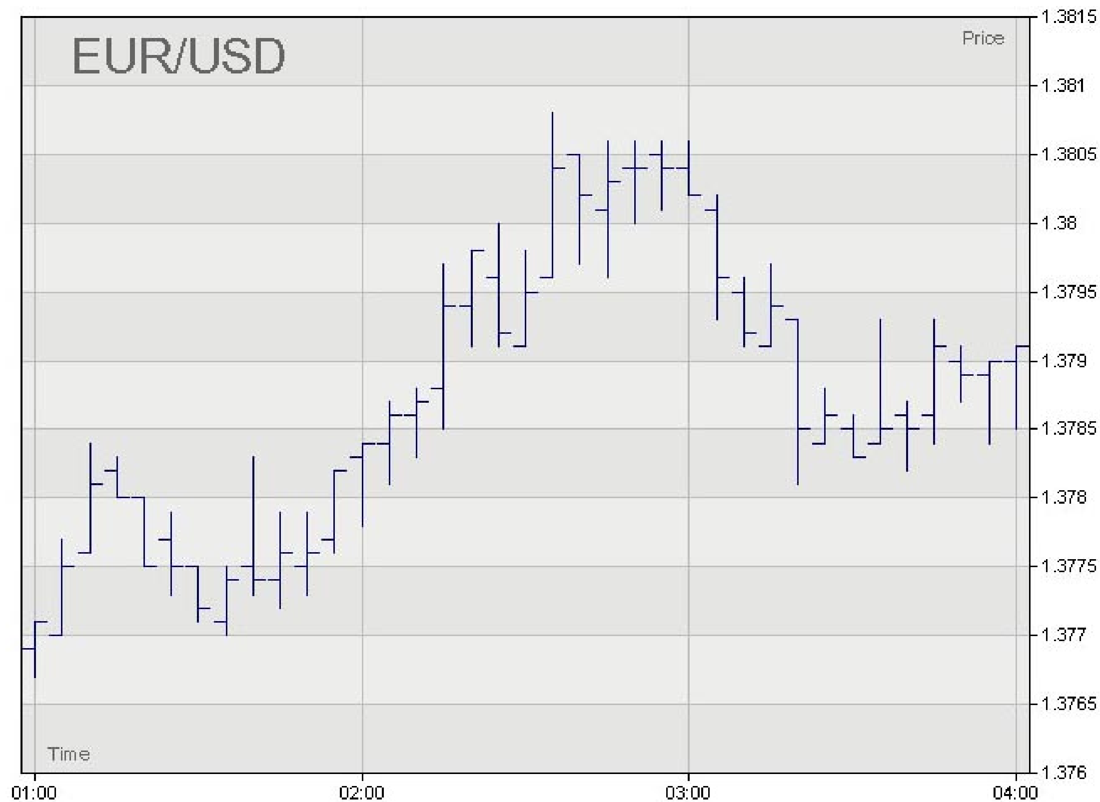
Line charts simply plot each closing price and join them with a line. The rise and fall of the line shows the general movement of a currency pair. However, it does not show movements within the trading period, only the close.

2. Bar charts

A bar chart will show a series of vertical lines or bars. The top of the line represents the highest price during that time period. The bottom of the line represents the low. A short horizontal bar on the left side indicates the opening price and a short horizontal bar on the right side indicates the closing price.

Since they show the open, high, low and closing prices, bar charts are also sometimes called OHLC charts.

This bar chart shows the same time period and price movements as the line chart example above.



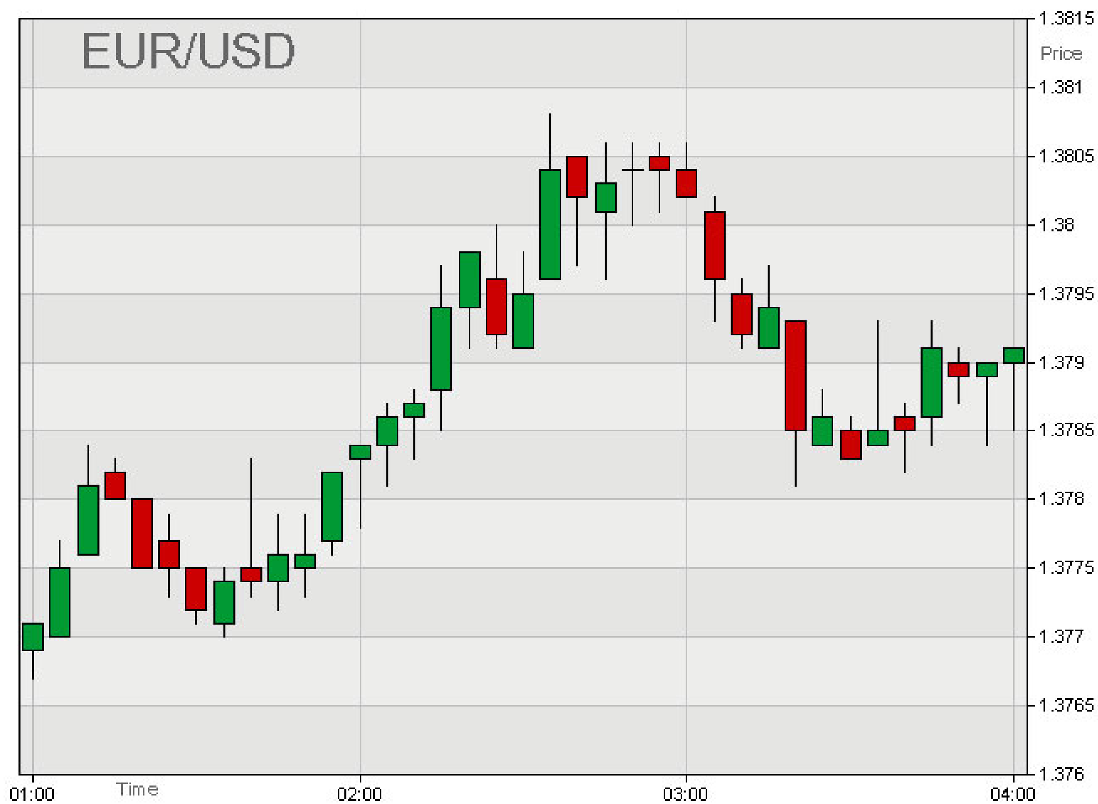
3. Candlestick charts

Candlestick charts show all of the same information as a bar chart, but presented in a different way which most people find easier to read at a glance.

You will see the same vertical line with the high at the top and the low at the bottom, but there is also a wide block in the middle showing the gap between the opening and

closing price. The blocks will be filled white, green or blue for a rising price (closing price was higher than opening price) and black or red for a falling price (closing price was lower than opening price).

Again this shows the same price movements for the same period as in the line and bar chart examples, but presented in a different way, giving more opportunity for observing patterns and trends.



Most people prefer candlestick charts over bar charts because it is much easier to see turning points in the market using candlestick charts. You can immediately see where the market reversed from an upward to a downward trend and vice versa.

Trend Lines

When you see a trend forming, you can make money (sometimes a lot of money) by trading in the same direction as the emerging trend. 'The trend is your friend', as currency traders say. For this reason, identifying the trend at an early stage is the most important thing to learn in forex technical analysis.

It is easy enough to see established trends. If you draw a line above the low points of the candlestick shadows while prices are generally rising you will see the slope of the uptrend. Similarly if you draw a line above the high points of the shadows while prices are generally falling, you will see the slope of the downtrend.

There are also sideways trends when the prices are fluctuating up and down between two points but not breaking beyond them. In this case the lines drawn above and below the shadows will be just about horizontal.

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Sidebar: you can set the time period covered by the candles from within your account. Take a wider view to identify a trend, perhaps with 4 hour periods, then focus in with 15 minute and 5 or even 1 minute charts to make your trade.

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Triangle Patterns – A Simple System For Making Money

Another situation in which you could expect a breakout is the symmetrical triangle. In this pattern, a line drawn below the lowest lows has an upward slope but a line drawn

above the highest highs has a downward slope. The two lines converge so that if continued, they would form a triangle. This type of movement is called price consolidation.

In this situation, neither the buyers nor the sellers are pushing the price far enough to make a clear trend. The prices are converging and if this continued, eventually there would be no price movement at all.

But it is not possible for prices to stop moving. So when this pattern occurs, it is a strong sign that a breakout is approaching. Either the buyers or the sellers will push the price their way.

We cannot tell for sure which way the price will go. The fact the the upper line is a little flatter could be an indication that it will rise, but fortunately, we do not have to be sure. We can place entry orders on both sides to take advantage of whichever move the price makes.

Try This For Yourself

This is something you can do right now in your demo account. Watch for this type of triangle pattern forming. When it does, place a buy order a little above the top line and a sell order a little below the bottom line.

As soon as one of those orders is triggered, you should cancel the other, and hopefully you will be on a winning trend.

Here's our example after a few more periods. As you see, the price broke out on an upward burst. Our buy order would have been triggered and we would have made a nice profit.

But note that if you were trading with a real account it not be wise to act on the chart alone. You would seek confirmation from other indicators before placing an order.

Other Indicators

Most brokers provide plenty of other indicators in their charting tools. We will look here at three of the most common, and how they can be used. Open up your demo account and look at these indicators as they are shown in your own system as we go through the different kinds.

Bollinger Bands

Bollinger bands are made up of three lines or bands. Mathematically, the central band is a simple moving average over a certain number of time periods, typically 20. The upper and lower lines are at a certain number (usually 2) of standard deviations calculated with reference to the number of periods used for the center band.

Bollinger bands were invented by John Bollinger in the 1980s. His theory was that prices will normally remain within 2 standard deviations of the moving average used to plot the central line. This means that as prices reach the upper and lower band lines, Bollinger's theory is that they will probably turn back in the other direction to keep the prices within the bands.

They are also an indicator of volatility (how unstable the prices are). Wider bands indicate a more volatile, wider swinging market than narrow bands.

Here are two of the ways that traders use Bollinger bands:

1. **Identification of overbought and oversold markets**

On the basis that prices are likely to remain within the bands, some traders will use Bollinger bands as an indicator to sell when the price closes above the upper line and buy when it closes below the lower line. Typically they will plan to close their trade when the price returns to the central line.

Caution is required here, however, as these movements outside of the bands may simply indicate a strong trend forming in that direction. So you could be caught on the wrong side of a strong trend in some cases. John Bollinger himself recommended always checking against another indicator. Probably the best for this purpose are non-oscillating indicators such as trend lines or chart patterns.

2. Identification of contraction, predicting breakout

As we have seen, the bands will diverge and converge according to the volatility of the market over the measured past periods. When they converge so that their area becomes narrow, this is called contraction. Some traders will act on the basis that this contraction is an indicator of a large breakout and they will place both buy and sell orders outside the bands, as in the triangle pattern that we saw on our candlestick chart in the last section.

The danger here is that there can often be a false break where the prices will stretch outside the bands briefly before reversing. For this reason some traders prefer not to act on the first move outside the bands, but wait for a second break. Again it is a good idea to check with another indicator.

Stochastic Indicator

The stochastic indicator is an oscillator that enables you to see at a glance the momentum of the market. Momentum is the pressure or weight behind the current trend. It is based on the idea that while prices are rising, the closing price will tend to be higher than it would be if the market was stable. Equally, when prices are falling, the closing price will tend to be low. From this assumption the oscillator measures when a trend is considered to have reached its limit and is about to turn.

The actual calculations are complex but fortunately you do not need to do them because your trading account software will do them for you. This means that you should be able to access the indicator plotted on a chart in your forex brokerage account.

The stochastic indicator will give you two lines that usually run fairly close together:

1. The line called %K gives a comparison of the last closing price to previous closing prices.

2. The line called %D smooths out the %K line and can be used as a signal line.

Using the Stochastic indicator is quite simple. Like Bollinger bands, it gives a signal that a market is overbought or oversold. In other words, it will tell you when a trend should be about to reverse, according to the basis of these calculations.

If both lines are high, this is a signal that the market is overbought. If you are trading forex on the basis of this indicator you would put in an order to sell.

Conversely if both lines are low, they are telling you that the market is oversold and you could put in an order to buy.

You will normally have horizontal lines on your charts marking the high and low points for you so that you can see at a glance when to act. In many cases you can alter the position of these lines to suit your trading style. The most common settings are 70, 75 or 80 for the high line and 30, 25 or 20 for the low line.

If your settings are closer (70 and 30) you will want the stochastic lines to stay above or below your trigger lines for a longer time before you trade. If your settings are at 80 and 20, any movement above them would be a strong signal. Check this out with your own backtests to decide when you would be comfortable putting in an order.

Many currency traders also regard the relative positions of the two stochastic indicator lines as a signal for forex trading. They would open a trade when %K crosses %D.

Again you should not rely entirely on this one indicator but use a combination.

The MACD Indicator

MACD stands for for Moving Average Convergence Divergence and it is what is known as a lagging indicator. The MACD indicator is a useful tool for confirming when trends have formed or may be reversing. It does this by plotting the relationship between two moving averages.

The settings are usually expressed as three numbers. Commonly you might see 12,26,9. The first two numbers (12 and 26) indicate the number of periods used to calculate two moving averages.

The faster moving average line, which is often green on the chart, measures the moving average of the difference between the 12 and the 26 period moving averages.

The slower moving average line is often red on the chart. This line plots the average of the last 9 (or whatever is the third number) periods of the faster moving average line. It usually shows smoother curves because its effect is to smooth out the fast moving average line.

The histogram that measures convergence and divergence is the series of blocks stretching above and below an axis near the bottom of the chart. This simply records the difference between the faster and slower moving averages.

During convergence, you will see the two lines on the chart approaching each other and the bars on the histogram at the bottom of the chart become smaller. This usually indicates that the current trend is coming to an end or has ended.

Of course the faster line reacts to a change in price movements more quickly than the slower line. So when a new trend forms, the faster line will get closer and finally cross

the slower line. If it then separates or diverges from the slower line, this is often an indicator that a new trend has formed.

When the two lines cross, the bars of the histogram will be at zero and then cross their axis so that if they were below the axis before, they are now above it, and vice versa. If a strong new trend is forming, the bars will quickly lengthen in the new direction.

So this crossover could be used as a signal to place an order. You have a buy signal when the faster line crosses the slower line from below, and a sell signal when it crosses from above.

However, there are disadvantages to the MACD which make the crossover unreliable as a self standing signal. The main problem is that even the so-called fast line lags significantly behind actual prices because it measures averages of the past prices. So when the market is very volatile, trends could be ending before the MACD crossover marks that they have begun.

Generally the MACD is a better indicator of the strength of a trend than it is of its direction. For this reason some traders ignore the crossover and look instead at the length of the histogram bars.

If you decide to trade the MACD, you should probably use it for both your entry and exit signals. This takes a lot of nerve and experience, and it is not recommended for beginner forex traders. So if you are just starting out, you are probably better advised to base your trading decisions on other indicators and refer to the MACD only for confirmation.

Developing Your Own System

The best way to learn forex trading is to use your demo account to develop a system of your own. Here are 8 steps that you must take when developing your system.

1. Choose your main chart time frame on which you will identify the trend, e.g. 1 day, 4 hours, etc.

2. Select the indicators that you will use to help you identify a trend.

3. Select the secondary time frame and secondary indicators that you will use to confirm the trend.

4. State your risk – position size (in lots) and stop loss.

5. State your entry point in relation to current price/the identified trend.

6. State your exit point.

7. Write down all of these rules and stick to them – always!

8. Test the system (see below).

Testing your system

There are three phases to testing your system.

1. Back testing. Use the historical charts available in your trading account or online to see what would have happened to your money if you had used your system to place trades in the past. You will need to cover at least 6 months and preferably more.

2. Assuming it is profitable on back tests, trade it on a demo account in real time for between 2 and 6 months depending on how frequently you trade. You may get different results here because live trading on a moving market, even in demo, is a very different experience from back testing.

3. If you need to tweak the system to make it profitable in demo, don't forget to back test the new tweaked rules. Then keep on in the demo account until the tweaked version is profitable over a 2-6 month period.

Once you have a solid system that works in back tests and at least 2 months of demo trading, you can go live if you feel ready. If not, keep on in the demo account for a longer time.

If and when you go live with real money, remember you must always keep to the rules of your system. This is the only way that you can make money with forex trading. In fact it could be called …

The Big Money Making Secret

To make money with forex trading there is one thing that you must apply and that is CONSISTENCY.

This means that once you have identified a profitable system , you must be able to keep to it no matter what and apply its rules to every trade that you make.

Here is why being consistent works, and flitting from one thing to another does not work:

No system, however sound, is going to make a profit on every trade. What's more, it will have what we could call winning runs and losing runs ... periods when everything or nothing seems to go right.

Imagine that your system, overall, has 80% profitable trades with individual gains big enough and losses small enough to make this ratio profitable. Do not fall into the trap of thinking that this means that if you take any 10 trades, 8 will be winners and 2 will be losers. You could have 0 losers in the first 10, 3 in the next 10, 0 in the next 10, 5 in the next 10. In fact, if you continue your system for a while, it is possible that you will have a run of 10 losing trades at some point. And the temptation at that point is to think that the system has stopped working and switch systems. But if your average over the long term is still 80%, your system is still profitable and you absolutely must not switch.

Think about it. If you drop out when you are down, and switch to something that has been doing better recently, you will be always moving in at the high point, and pulling out at the low point. You would never do that with an individual trade. You know it is a surefire way to lose. So do not do it with systems.

If you have always had a tendency to act on impulse, you will need to work on this. Remind yourself that impulsive behavior is not a fixed part of your personality. Being consistent is a skill. It is something you can learn.

Practice with a demo account, by trading on paper and by starting small when you do start with real money. You will find that as your confidence in your system increases, so does your ability to be consistent. Hold on to that confidence any time that you have doubts.

5. Isn't There An Easier Way?

We have covered a lot in this ebook. We have looked at just about everything that you need to know to start trading on your own account. We've told you that you need to backtest and run systems in a demo account for some months before you start trading for real. So if you were hoping to make money fast, you may be feeling a little disheartened. You can probably see that some learning time is necessary, and believe me this is a shortcut considering that some people spend years of training before they ever trade for real, but it may not be what you hoped you would get from a book about 'quick and easy forex trading'.

So you may be wondering, "Isn't there a quicker and easier way?"

The answer is yes, in fact there are several, and they can work well for some people.

Easier Way #1 – Managed Accounts

Managed accounts can present an attractive opportunity for people who want to make money from the currency trading markets but cannot or do not want to learn to trade for themselves. With a managed account you do not have to do any trading at all. Instead, you entrust your fund to the management company who will act for you.

Most managed accounts require a large minimum deposit. Around $25,000 is common. If that is within your means, you need to be aware of the difference between the two main types of managed accounts that you may find.

1. **Standard managed accounts**

With this type of account, your money is kept in your brokerage account in your own name and the manager simply has access to your account so that they can trade with it. You can see how much is there and how it is doing at any time. You can make whatever withdrawals you want. It it always your money.

You have to accept that even skilled account managers cannot predict the markets 100% and you may have to take some losses. Still, if you are a beginner, they are likely to do better with your money than you would yourself, so it is just a question of whether they can do well enough to cover their fees and make you a good profit.

2. Pooled accounts

Pooled accounts are more risky because there is a greater possibility of fraud. Here, your money goes into a pool held by the account manager. You are paid a share of their declared profits.

In theory the pool provides a buffer so that profits and losses are more evenly spread and your income should be a little more predictable than when your money is being managed separately. Costs should be lower too. The problem is that you cannot really know what is happening and an unscrupulous management company could simply be making small regular payments to keep their customers happy while illegally diverting the bulk of your funds into their own pockets.

Of course there are some well run pooled accounts. However, you should research a company offering pooled accounts very carefully before you decide to invest.

Even if you choose a standard account, you need to do your due diligence. Check the company's incorporation, their history and trading record. Try to avoid managers who insist on you signing up with their preferred broker. That usually means that they get a commission on all your trades, so they have an incentive to use a strategy that will

increase the broker's earnings and their own commission rakeoff, even if that is not the most profitable for you. It is better to sign up with a company who will let you choose your own broker, even if they charge a slightly higher fee.

Easier Way #2 – Forex Robots

Forex robots , a.k.a automated or autopilot trading systems, are software programs that run on your own computer and trade for you. They usually come with their own trading systems installed and you can adjust the settings to your own lot size, margin, risk etc. You may be able to choose currency pairs and other factors.

Most robots run on a software platform called Metatrader 4 which requires Windows. You will need a modern computer and high speed internet connection.

A robot can do many things that you cannot. For example, it can watch the markets all day and all night, never missing a possible trade. Be aware though that in order for it to do this, you have to leave your computer on and connected to the internet 24 hours. If you cannot do this you will either have to close all trades before you switch off, or find remote hosting for your robot. Remote hosting has a cost but the benefits can make it worthwhile once you have the robot working profitably on a live account.

Since the different robots apply different systems, some have a better trading history than others. You can check on user feedback in forex forums, but as we said for brokers, do not rely on the feedback of one person who may be in a very different situation to yours. Generally, the better a person understands the forex markets the better they will do with robots. A lot of the negative feedback comes from people who buy a robot and try to set it up without even understanding the basics. If you have read through this ebook and tried a little practical trading on a demo account you will be way ahead of those people and have a better chance of success.

The best known robots are sold through the independent retailer Clickbank which gives you the advantage of a 100% no questions guarantee for 2 months. So you have a chance to try them out on a demo account with no risk. Examples are: Forex Bling , Forex MegaDroid , Forex Autopilot .

Some people are unwilling to trust their trading decisions to a computer program, especially at first. It is true that it is wise to be cautious in the beginning, because there is always the chance that you will misunderstand something. But many people find this less stressful than trading for themselves, and the robot has the advantage that it will always be consistent and will never base its trading decisions on emotions.

Always use the software in demo mode until you are familiar with all of its settings and features and can see that it is making consistent profits for you.

Easier Way #3 – Forex Signals

If you want more control, a forex signals service may be the solution. Forex signals can be a good source of information if you do not have the time, experience or inclination to analyze the markets for yourself but do not want to trust your trading to a robot.

You usually have to pay to subscribe to a forex signal service . Fees may be charged per month or per signal. Some companies offer a trial period where you can test their service on a demo account. If not, you will be paying out money from the start so to have a chance of making profits, you need to be trading at a level where you can expect to make more money from the signals than they are costing you.

The first thing that most people look at when considering forex trading signal providers is their recent results. This can be a mistake. Recent results are not as important as performance over the long term. Do not sign up with a company who make a huge deal

of last month's amazing results but will not tell you what their signals have made over a full year.

Also remember that when they show their profits, they do not have to take account of the cost of the signal service itself. If you have a very small account balance and lot size, you may not be able to cover the cost even if the signals themselves are profitable.

Also keep in mind that losses are not always the fault of the information. Even if you are receiving profitable signals, you must also have a clear plan for managing your funds. If you have a good run of profitable signals it is very easy to start thinking they will always be right and take bigger risks than you should, so that an unexpected loss has a big impact.

Most companies who offer forex signals will send them to you by email and/or SMS text message. It's best to get both, although SMS alone may be enough. If you have mobile broadband on a laptop you can respond to a signal wherever you are. If not, keep in mind you may not always be able to open or (more importantly) close a trade at the best time.

Remember that forex is a 24 hour market. You could be woken in the middle of night by your cell phone bleeping with an SMS that you need to act on right away. Think about whether you (and anyone who shares your bedroom) are OK with that before you sign up.

Final Words

5 Golden Tips For Successful Forex Trading

Let's finish with 5 tips for successful forex trading.

1. Consider carefully before you decide to follow any system.

One successful businessman has said that the secret of his success was doing his research thoroughly before making a decision, and then sticking to that decision like iron. You need to be sure that your system is one of the best out there ... not necessarily the very best. And you need to be comfortable with all the actions that it will require you to take, whether things are going well or badly.

2. Work on your discipline.

If you have problems with self discipline in other areas of your life, use those to train yourself in the skill before you start live trading. Start with something that you could fairly easily master, and work up. It might be getting up at the same time every day, following a workout routine, giving up something unhealthy, doing one DIY task a week … whatever. Developing your general self discipline will help you stick to your trading system, and that will help you make money.

3. Don't mix work and play.

Allow yourself a small 'fun' budget or have a separate mini account for trades that look so tempting that you cannot pass them up even though they do not fit your criteria. You will almost certainly lose this money over a period of time, so be sure you can afford it. If not, avoid the temptation and track these trades on paper instead. Be sure to track

them all because we have a tendency to remember the few that would have profited us and forget the majority that would have lost.

4. Do not discuss your trades or your system with anybody else.

It is fine to ask around on forums before you have decided on your system, but do not be drawn into debate about the merits of a system after you start using it. You will quickly be swamped by negativity from people who want to believe that their own system is better. Equally, do not discuss it with non trading friends or family members. They will often be negative simply because they do not understand.

5. Do not drink alcohol while you are trading.

It is better not to even look at the markets when you have had a few beers. If you see a tempting trade that breaks your normal rules it will be much harder to resist when you are under the influence of alcohol.

So …

Even though we all love the idea of working from home in our pajamas with a beer in one hand and the other hand in the cookie jar, the truth is that relaxing to this extent does not combine with successful forex trading.

Trading takes dedication and a cool head that is not ruled by emotions. It also takes a certain amount of experience. Armed with the knowledge in this book, go ahead and try for yourself with a demo account. You may be surprised at how quickly you can identify trends and start to make money.

The Top Forex Trading Systems

Forex Bling

Fap Turbo

Forex Megadorid

Forex Ambush 2.0

Forex Automoney

Fap Winner

The L.M.T Forex Formula

Forex Grid Bot

Forex Derivative 2

The London Forex Rush System

Forex Confidant